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C O N F I D E N T I A L SECTION 01 OF 02 AMMAN 006722

SIPDIS

TREASURY FOR DAVID LOEVINGER/LARRY MCDONALD

E.O. 12958: DECL: 11/13/2007

TAGS: [EFIN](#) [EAID](#) [JO](#)

SUBJECT: JORDAN: DAS SATTERFIELD DISCUSSES PROPOSED ASSISTANCE PACKAGE

Classified By: AMBASSADOR EDWARD W. GNEHM, JR. REASONS 1.5 (B) AND (D)

1. (c) Summary. In meetings with the Jordanian Prime Minister and Finance Minister, DAS Satterfield was told that answers to the U.S. questions regarding possible supplemental economic assistance for Jordan would be ready within the coming week. The ministers agreed that additional U.S. assistance could be structured so as to address the basic objective of weaning Jordan off its economic dependence on the Iraqi oil grant within the framework of its existing IMF supported economic program. While there is a need for further discussion of the details of such a transition, both the Prime Minister and the Finance Minister accepted the need for economic conditionality that supported this objective. Both sides acknowledged the need to foster support in the U.S. Congress. The Prime Minister said there had been no movement on a proposed Kuwaiti-Saudi-UAE oil package and asked for continued U.S. involvement. The finance minister briefed on the positive economic performance so far this year. End Summary.

2. (c) DAS Satterfield met separately with Finance Minister Michel Marto and Prime Minister Abul Ragheb on November 13 to follow-up on the November 1 Jordanian-U.S. discussions in Washington of a supplemental assistance package for Jordan. Foreign Minister Marwan Muasher joined Abul Ragheb. Ambassador Gnehm, Treasury Deputy Office Director Marshall Mills, and Econ/c Goldberger accompanied Satterfield.

Follow-up Questions

3. (c) Abul Ragheb explained that the Jordanian government had been working on answers to the five follow-up questions that emerged from the Washington meetings. He said that this work was not yet finished, mainly because of uncertainty over the intent of the fourth question relating to social spending programs. Satterfield explained that the question was looking for reassurance that Jordan would use additional resources made available by the United States within its existing budgetary structures and targets agreed with the IMF. Additional resources should compensate for revenue losses (and perhaps exceptional spending needs) associated with the dissolution of Jordan's special economic relationship with Iraq. The goal or philosophy behind extraordinary assistance would be to facilitate the creation of an independent Jordanian economic system that is sustainable over the long term, Satterfield said. As part of this, Satterfield stressed the need to establish market pricing for petroleum products.

4. (c) Both Abul Ragheb and Marto agreed with these objectives. They understood that current fiscal dependence on the Iraqi oil grant was not sustainable. They agreed it was necessary to have a plan for making a transition to petroleum product prices set by market forces. They also accepted the need for the U.S. to put economic conditions on the use of assistance. Marto in fact welcomed such conditionality as giving him additional leverage to promote reforms. Abul Ragheb's comments suggested, however, a need for further discussions about the details and timing of a transition to market prices. He said, for example, that oil produce prices could be raised in annual increments of 7% per year for five years (which doesn't add up). (Comment: the visiting IMF team told Mills and Goldberger earlier in the day that they thought a 50-60% increase in average product prices needed to meet world prices could be achieved over two to three years.) Abul Ragheb noted that the Administration was considering a multi-year ESF package. He pointed out that the most significant economic consequences of any confrontation with Iraq would occur during the first year. He argued for maximum disbursements early on.

5. (c) Abul Ragheb appreciated the guidance from Satterfield and said he would work to have the answers ready by early in the week of November 19. Abul Ragheb asked whether additional assistance would be provided even if there were no conflict in Iraq. Satterfield responded that that it was unclear, but that Congressional support would be more problematic if there were no conflict. Mills also said he

would be available for any further technical discussions.

Iraq Debt

16. (c) Abul Ragheb also raised the possibility of supplementing U.S. assistance with repayments of what he said was the \$1.4 billion in old debt owed by Iraq to Jordan. He suggested that if this debt were repaid over five years it could help cushion the fiscal impact of having to buy oil at market prices. Satterfield said he would transmit this to Washington, but noted that other creditors also had significant claims on Iraq.

Oil Package

17. (c) Abul Ragheb also confirmed that there had been no new developments regarding the special oil supply package suggested by Kuwaiti State Minister Muhammad al-Sabah. He expected that such a package would include concessional elements. King Abdullah had not specifically raised the question with Crown Prince Abdullah in Riyadh the day before (November 12), although he did receive general assurances of Saudi support for Jordanian "brothers."

Economic Performance

18. (sbu) Marto briefed on the outcome of the just completed IMF mission. He said that the Fund thought the 2002 annual real GDP growth target of 5.1% was attainable and that 2003 growth could reach 6%. Improved performance was based mainly on strong export growth, tourism receipts, and remittances. (Tourism receipts were 11% more in the first nine months of 2002 than the same 2001 period, as greater tourism from Arab countries more than compensated for a lower number of European and U.S. visitors.) Internal demand, however, remained weak. Marto expected that all of the stand-by program's year-end performance criteria would be met, despite lower than expected fiscal receipts. He noted that this had been achieved despite the uncertainties in the political environment and appreciated U.S. economic support, particularly for the Program for Social and Economic Transformation (PSET). He said the government was continuing to make progress on its structural reform goals, particularly those connected with pension reform.

19. (c) Satterfield and Mills cleared this message.
GNEHM